

3-1979

Proposition 13, Property Transfers, and Real Estate Markets

Frederick Balderston

Institute of Government Studies, UC Berkeley

J. Michael Heyman

Institute of Government Studies, UC Berkeley

Wallace F. Smith

Institute of Government Studies, UC Berkeley

Follow this and additional works at: http://digitalcommons.law.ggu.edu/caldocs_agencies



Part of the [Taxation-State and Local Commons](#)

Recommended Citation

Balderston, Frederick; Heyman, J. Michael; and Smith, Wallace F., "Proposition 13, Property Transfers, and Real Estate Markets" (1979). *California Agencies*. Paper 193.

http://digitalcommons.law.ggu.edu/caldocs_agencies/193

This Cal State Document is brought to you for free and open access by the California Documents at GGU Law Digital Commons. It has been accepted for inclusion in California Agencies by an authorized administrator of GGU Law Digital Commons. For more information, please contact jfischer@ggu.edu.

INSTITUTE OF GOVERNMENTAL STUDIES
University of California, Berkeley

**PROPOSITION 13, PROPERTY TRANSFERS, AND
THE REAL ESTATE MARKETS**

Frederick Balderston, I. Michael Heyman and Wallace F. Smith*

Institute of Governmental Studies Research Report 79-1



HD
266.03
63

161

**PROPOSITION 13, PROPERTY TRANSFERS, AND
THE REAL ESTATE MARKETS**

Frederick Balderston, I. Michael Heyman and Wallace F. Smith*

Institute of Governmental Studies Research Report 79-1

LAW LIBRARY
GOLDEN GATE UNIVERSITY

Prepared, Fall, 1978, for the Commission on Government Reform, State of California
with support from the U.S. Department of Housing and Urban Development
Research Grant H-2944-G

*Frederick E. Balderston, Professor of Business Administration, in association with I. Michael Heyman, Professor of Law and the Vice Chancellor, and Wallace F. Smith, Professor of Business Administration, all of the University of California, Berkeley.

March 1979

Library of Congress Cataloging in Publication Data

Balderston, Frederick E.

Proposition 13, property transfers, and the real estate markets.

(IGS research report ; no. 79-1)

Bibliography: p.

I. Real property, Exchange of--California. 2. Real property tax--California. 3. Real estate business--California. I. Heyman, Ira Michael, joint author. II. Smith, Wallace Francis, 1926- joint author. III. California. Commission on Government Reform. IV. California. University. Institute of Governmental Studies. V. Title. VI. Series: California. University. Institute of Governmental Studies. Research report - Institute of Governmental Studies, University of California ; no. 79-1.

HD266.C2B3 333.3'3 79-10332

ISBN 0-87772-264-1

79-5-416

CONTENTS

I.	BACKGROUND	1
II.	PROPERTY TURNOVER RATES	5
	County by County Turnover Rates in California	6
	Turnover of Owner-occupied Dwellings	16
	Effects of Reassessment on Sale of Owner-occupied Housing	19
III.	PROPOSITION 13 AND THE CALIFORNIA HOUSING MARKET	24
	Homeowners - Basic Issues	24
	Property Transfer Mechanisms	34
	The Diminished Lure of the Suburbs	35
	The Rental Market	37
IV.	PROPOSITION 13 AND NON-RESIDENTIAL REAL ESTATE	40
	Types of Business Property Transactions	43
	Business Property Transaction Volume	46
	Business Property Exclusions from Proposition 13 Treatment	48
	Effects of Proposition 13 upon Other Business Investment Decisions	49
V.	OTHER ISSUES	51
	County Assessors' Problems of Perfecting the Tax Rolls	51
	Appraisal Standards for Mortgage Financing	53
	A Remedy Needed for the Lack of Downward Adjustability in Assessed Values	54
	Concluding Comments About Proposition 13's Impacts on Real-estate Markets	56
TABLES		
Table 2-1:	Gross Property Turnover Rates, California Counties, Selected Years	8
Table 2-2:	Comparison of Single-family House Turnover Rate and Other Property Turnover, Santa Clara County	14
Table 2-3:	Proposition 13 Effect on Hypothetical Homeowner's Decision to Move	21
Table 3-1:	Inflation and Property Tax Burden on Hypothetical Fixed Income Homeowner	27
Table 3-2:	Rent and Property Taxes in Relation to Tenant Income 1976-77 California Renter Households	39

FIGURES

Figure 2-1: Lag in Assessed Value Behind Current Fair Market Value	7
Figure 3-1: Effects of Proposition 13 on Projected Tax Burden-- California Homeowners Assuming Real Income Unchanged 1976-77 to 1981-82	30
Figure 3-2: Projected Current Income Burden of Major California Taxes on Homeowners, 1981-82, and Effects of Proposition 13	33
Figure 4-1: Economic Life of a Tree Having Varying Productivity over Time	42

APPENDICES

Appendix A: Documentary Sources	A-1
Appendix B: Personal Contacts with Individuals (Phone, Mail, and in Person) for Information and Assistance on This Research Project	B-1

FOREWORD

This is one of a series of reports prepared for the California Commission on Government Reform, established in the wake of Proposition 13 under the chairmanship of A. Alan Post. The Commission, which issued its report and recommendations in January 1979, was concerned with the general area of state and local taxation and expenditure policies, the organization of state and local government, and with the impact of Proposition 13 on all of these. More than 50 study projects were commissioned, most involving "task forces" of state and local officials, representatives of interest groups, and qualified specialists.

In response to a request from the Commission, the Institute of Governmental Studies undertook four of the study projects under a research grant from the U.S. Department of Housing and Urban Development (Grant H-2944-G). Preliminary drafts of these reports were made available to the Commission in late fall, at the same time as comments and further information were gathered from qualified persons, and incorporated into these final versions. (See next page for further details.)

The Institute gratefully acknowledges the support and cooperation of the Office of Policy Development and Research of the Department of Housing and Urban Development, as well as the members and staff of the Commission on Government Reform. We are pleased to have had the opportunity to contribute to the work of the Commission and to those policymakers who must now wrestle with the complex and controversial issues posed by Proposition 13. These and parallel issues will dominate the domestic agenda of the nation during the 1980's. The need for objective analysis and informed judgments is critical. These reports, it is hoped, meet both tests.

Eugene C. Lee
Director

January 1979

**Reports for the California Commission on Government Reform, Chairman A. Alan Post
published by the Institute of Governmental Studies**

Balderston, Frederick, I. Michael Heyman and Wallace F. Smith

Proposition 13, Property Transfers, and the Real Estate Markets.
IGS Research Report 79-1. 1979 56pp + Appendices

Fletcher, Thomas, Dennis Hermanson, John Taylor, Shirley Hentzell and Dean Linebarger

Allocating the One Percent Local Property Tax in California.
IGS Research Report 79-2 1979 35pp + Appendices

McWatters, Ann Robertson

Financing Capital Formation for Local Governments.
IGS Research Report 79-3 1979 51pp

Bowen, Frank M., and Eugene C. Lee

Limiting State Spending: The Legislature or the Electorate.
IGS Research Report 79-4 1979 100pp + Appendices

Other relevant Institute publications forthcoming:

Proposition 13 Research Inventory: A Partial Inventory of Research in the State of California and Elsewhere, 3rd edition .

Proposition 13 in the 1978 California Primary: A Pre-Election Bibliography .

I. BACKGROUND

✓ Proposition 13 has lowered the annual costs of owning real property in California. The larger is this cost reduction to the owner, the more important the immediate consequences for particular ownership decisions: to buy, sell, or lease; to build a new building; to renovate or add to an existing building. At the same time, changes in financing and, in some cases, of the amount and quality of public services follow from Proposition 13 and will also affect real-estate markets in various ways.

Real-estate decisions, many thousands of them, may have large macro-consequences for the California economy and will affect governmental revenues and responsibilities. ✗ Yet there is wide uncertainty as to the specific meanings of the new implementing legislation and as to the responses to the new conditions that may be made by millions of California households, thousands of business enterprises, and many hundreds or thousands of governmental and public organizations. (Relatively modest shifts of assumptions fed into a UCLA forecasting model produced large predicted changes in California's rates of employment, unemployment, and total income.)

For the purposes of this research report, property transfers are transactions that shift control of real property from one economic unit to another and are regarded as substantive property transfers within the meaning of Proposition 13 and the 1978 implementing legislation. An ownership change registered with the Recorder of Deeds is a typical example; but the Legislature, in Senate Bill 154 and Senate Bill 1212, excluded some transfers from consideration on the ground that they were essentially technical. Inter-spousal transfers and deed recordings to convey title of previous joint-

tenancy property to the surviving spouse are two cases in point. If these nominal transactions had not been excluded, the property would have lost "base year" treatment and a new assessment would be made as of the date of the technical property transfer.

Our definition emphasizes change of control, not change of ownership, because, for example, leases of more than ten years are included as property transfers within the meaning of Proposition 13. (See Senate Bill 154, sec. 29.)

Two not very surprising conclusions can be reported concerning what has happened in response to Proposition 13 in the months since its passage in June 1978. First, this change in tax exposure, having come about without the long seasoning that a significant change in the rules of the game often has through protracted hearings and incremental action, is difficult for decision-makers to absorb; and it has increased business uncertainties for a time. Second, specific impacts of the property-tax change are confounded with many other forces and events in real-estate markets. Even when data become available from several months or years of market activity after passage of Proposition 13, its impacts will be very difficult to distinguish from the effects of numerous other variables that affect the volumes of property transfers, the amount of new construction, and the prices of real property.

It is revealing, however, to analyze the reasons why uncertainty has increased and indicate some temporary consequences of this uncertainty. In addition, some elements of the market response to Proposition 13 can be analyzed, and the constitutional validity and the potential use of legal devices for property transfer can be discussed.

It is of interest to observe of both the housing and other real-estate markets that this decrease in the cost of holding real-estate assets is expected by businessmen, other things being equal, to stimulate the real-estate markets, both for existing property and for new construction. Holding these types of assets becomes more attractive relative to other asset types and relative to the situation before passage of Proposition 13. Yet the problem is, of course, that other things do not remain the same. The high uncertainty of which there was nearly universal testimony in the first few months after the June 1978 election arose from the perception of a number of offsetting variables. These in turn may affect both the transaction volumes and prices for existing real estate and the rates of new construction.

An ideal way to approach the evaluation of Proposition 13's impact would be to begin from a fully defined econometric model of the market (say, the housing market) and inject the change in property assessment and tax cost into that model. From this, the change in values and the transaction turnover rate could be calculated from the relationships in the model. Also, the model might permit calculation of the rate of convergence to full "1% of market value" treatment of the whole stock of housing.

It is not possible to follow this econometric approach either for housing or for non-housing real-estate. Therefore, our investigation consists of a series of efforts to clarify elements of the impact of Proposition 13 by means of micro-economic analysis.

Also, the research reported here was completed before Congress passed the Revenue Act of 1978. This Act provides many owner-occupiers of residential property an exemption from tax on capital gains up to \$100,000 on

sale of the principal residence. This privilege may be exercised by the taxpayer only once. Other effects on the timing and character of property transfer decisions may well be swamped in importance by the great size of this tax reduction, but we have not sought to incorporate in this study the effects of the new capital-gains treatment.

II. PROPERTY TURNOVER RATES

Property turnover is important in the interpretation of Proposition 13 because a property transfer triggers reassessment as of the date of transfer and therefore changes the property tax liability from "base year" treatment, or the previous assessed valuation adjusted by two percent per year. This, in turn, changes the costs of holding that property as compared with the costs prior to the transfer. (In today's generally inflationary climate, the assessment rises, and the tax liability and costs of property holding also rise. But it is quite conceivable that the transaction could take place at a lower price than the fair market value upon which the assessed value was based, thus resulting in a reduction of the property tax.)

Property turnover rates, therefore, must be used for future estimates of the revenue from property taxes. In particular, turnover rates offer a signal of the extent to which base-year treatment is replaced by current fair market value as the basis of assessment. Therefore, the extent of convergence of total property tax revenue in a county toward a level based on current fair market value depends upon the turnover rate in that county. (Of course, the average rate of property turnover does not tell the whole story. Some parcels of property may change hands repeatedly while others remain in the same continuous ownership indefinitely. Thus, the "base-year treatment" extending back to 1975 will never be eliminated completely from a county assessor's rolls.)

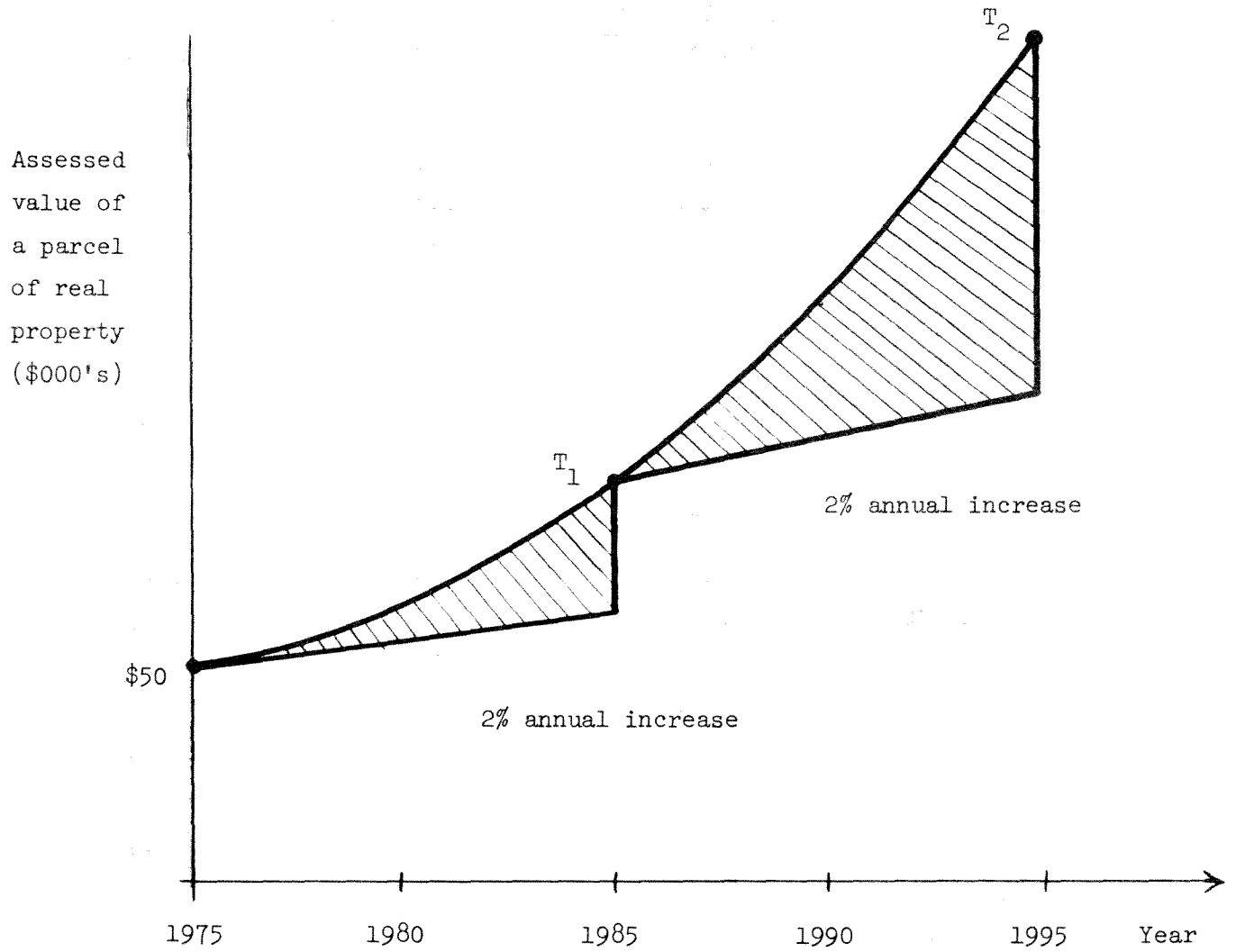
Total property-tax revenue in a county will, under foreseeable economic conditions, inevitably lag behind the tax yield based upon current fair market valuation even if every parcel of real property changes hands at the average

turnover rate. Proposition 13 provides for a 2% per year increase of assessed value from the last previous assessment based upon a transaction. Thus, if the average rate of price inflation for real property is greater than 2% per year, each parcel is valued for assessment purposes at less than the current year's fair market value most of the time. It "catches up" briefly when there is an ownership change, and then it begins to lag behind again in subsequent years. The more frequently the property changes hands, the smaller is the reduction of property tax payments below each year's current valuation. Property turnover rates in California counties have ranged from 8% to 20%. In this range the maximum valuation lag on a property is between five and twelve years. How big the reduction in tax yield to the county and local governments will be, however, depends also upon the size of the difference between the average annual rate of price inflation in real property and the allowable adjustment of 2% per year. Figure 2-1 illustrates this.

County by County Turnover Rates in California

Table 2-1 shows gross property turnover in each county of California for the three most recently available assessment years. (The assessment year runs from March 1 of a given year to February 28 of the year following, as the data presented come from county assessors to the State Board of Equalization as part of the standard workload reporting system.) Table 2-1 shows substantial variation in gross property turnover between one year and another for a given county. It also shows big differences between one county and another. Finally, even though 1974-75 was a recession year and 1976-77 was a good year in real-estate markets, Table 2-1 does not show

Figure 2-1: Lag in Assessed Value Behind Current Fair Market Value



T₁, T₂ are transactions.

Shaded area denotes assessment lag.

Table 2-1: Gross Property Turnover Rates, California Counties,
Selected Years[†]

County	Mar. 1, 1974- Feb. 28, 1975	Mar. 1, 1975- Feb. 29, 1976	Mar. 1, 1976- Feb. 28, 1977
Alameda	.135	.141	.171
Alpine	.183	.077	.139
Amador	.120	.143	.166
Butte	.163	.238	.203
Calaveras	.100	.092	.106
Colusa	.151	.188	.241
Contra Costa	.140	.130	.235
Del Norte	.290	.338	.185
El Dorado	.199	.200	.231
Fresno	.153	.192	.167
Glenn	.157	.140	.113
Humboldt	.188	.113	.357
Imperial	.094	.102	.091
Inyo	.258	.236	.257
Kern	.122	.103	.138
Kings	.117	.097	.144
Lake	.158	.151	.134
Lassen	.234	.238	.143
Los Angeles	.137	.144	.163
Madera	.140	.113	.200

[†] State of California, State Board of Equalization, Assessors' Budgets and Workloads Summaries, 1975-76, 1976-77, 1977-78 calendar years. Property turnover rates for each of the 58 California counties were calculated by dividing the total number of property transfers (for the corresponding assessment years) by the number of secured roll units.

Table 2-1 (cont'd)

<u>County</u>	<u>Mar. 1, 1974- Feb. 28, 1975</u>	<u>Mar. 1, 1975- Feb. 29, 1976</u>	<u>Mar. 1, 1976- Feb. 28, 1977</u>
Marin	.187	.173	.215
Mariposa	.138	.134	.264
Mendocino	.099	.107	.124
Merced	.175	.154	.165
Modoc	.091	.234	.163
Mono	.142	.160	.189
Monterey	.146	.156	.178
Napa	.145	.190	.193
Nevada	.223	.219	.254
Orange	.248	.247	.213
Placer	.145	.142	.186
Plumas	.268	.282	.271
Riverside	.147	.143	.236
Sacramento	.151	.146	.209
San Benito	.123	.127	.164
San Bernadino	.130	.156	.149
San Diego	.148	.137	.203
San Francisco	.174	.126	.139
San Joaquin	.135	.143	.179
San Luis Obispo	.158	.183	.223
San Mateo	.117	.123	.155
Santa Barbara	.138	.171	.161
Santa Clara	.240	.233	.233
Santa Cruz	.165	.150	.208
Shasta	.244	.241	.267

Table 2-1 (cont'd)

<u>County</u>	<u>Mar. 1, 1974- Feb. 28, 1975</u>	<u>Mar. 1, 1975- Feb. 29, 1976</u>	<u>Mar. 1, 1976- Feb. 28, 1977</u>
Sierra	.114	.137	.164
Siskiyou	.123	.114	.121
Solano	.153	.156	.141
Sonoma	.141	.150	.186
Stanislaus	.164	.178	.210
Sutter	.113	.123	.141
Tehama	.254	.292	.295
Trinity	.153	.124	.162
Tulare	.167	.179	.194
Tuolumne	.121	.112	.121
Ventura	.153	.182	.220
Yolo	.183	.193	.192
Yuba	.177	.179	.205
Average	.161	.165	.183

indications of the presence of a well-defined cyclical tendency--for example, to have low turnover in 1974-75 with steady increases thereafter. The statistical portrayal of overall property turnover, as shown in Table 2-1, does imply that a great deal of data assembly and analytical work will be required to arrive at an accurate interpretation of the influences on turnover and the consequences of turnover.

The statistical presentation in Table 2-1 is based on available data that were reported for workload calculations by county assessors to the State Board of Equalization. For each county, this is calculated by dividing the total number of parcels on the "secured roll" into the total number of property transfers. These are data reported to the State Board of Equalization by county assessors. The 1976-77 turnover rates vary from a low of 0.091 in Imperial County to a high of 0.357 in Humboldt County--a remarkable range for such a gross statistic.

The statewide average of 0.183 for all property in all counties is, however, an interesting statistic. If this rate of property transfer is maintained in future, the implication is that within five to six years, 100% turnover of property will have occurred. There may, of course, be some considerable number of real-estate parcels that remain in the same ownership and other parcels that have two or more ownership changes. Thus, the implication of 100% turnover cannot be taken to mean that "base year" treatment is eliminated entirely.

"Property transfers" as reported in these data, however, include many more items than are covered by Proposition 13 and in the implementing legislation enacted during June 1978. In future, the interpretation of property turnover can be improved by obtaining measures that reflect an analytically defined turnover concept. First, it will be important to separate the

measures of the number of parcels between housing, on the one hand, and non-housing real-estate on the other, and to disaggregate further as follows: (1) in housing real estate: single-family, one-to-four family parcels, and five-or-more family parcels; and (2) in non-housing real estate: industrial, agricultural, office, and commercial. A uniform classification for use by all counties would be needed; and prior to its adoption there should be consultations with urban-planning officials, real estate economists, financial-institution professionals, and other interested users of real-estate data.

Four alternative concepts could also be considered for use on the data of each property category. For that category, let S be the number of existing parcels, E be the number of sales made, and C be the number of new parcels created through subdivision and construction activity.

Then: (1) E/S is the turnover rate with no construction.

(2) $(E + C)/S$ is the adjusted turnover on the pre-existing number of parcels.

(3) $(E + C)/(S + C)$ is the adjusted turnover on the end-of-year stock.

and (4) $(E + C + N)/(S + C - W)$ is the fully adjusted turnover on the fully corrected end-of-year stock, where N is the number of parcels created by subdivision but not built on, and W is the number of parcels withdrawn from the deed register through property consolidations, government condemnations, etc.

Table 2-1 is based on measures in accordance with concept (3).

Concept (4) is the ideally satisfactory one, if the most comprehensive view of overall turnover is needed. For housing-market analysis, however, housing economists sometimes wish to analyze the turnover on existing property separately from the impact of newly built housing. For this purpose, then, they might wish to have for each housing category a separate measure according to concept (1) for comparison with new construction in that category. The reason is that economic variables affect transactions on existing houses differently from those on new buildings.

We will continue with exploratory investigation of variables correlated with property turnover and of possible causal relationships. Among the variables under investigation as possible correlates of county turnover rates are: total population and population growth; employment; construction activity, including both housing starts and dollar volume of non-residential construction awards; retail sales.

One example of the differences in turnover rates for different categories of property is shown in Table 2-2. For calendar years 1976 and 1977, respectively, single-family housing turnover was 13.9% and 14.1% in Santa Clara County, a very active county in real-estate volume and new housing construction. The same table shows turnover in property other than single-family housing; for 1976 this rate was 9.5%, and for 1977, 8.7%. Many particular categories of business property--factory and office buildings, for example--are said to have still lower turnover rates. There is good evidence to substantiate the view that disaggregated data on the number of parcels and on number of sales should be gathered for each county from now on, in order to facilitate analysis.

Table 2-2: Comparison of Single-family House Turnover Rate and Other Property Turnover, Santa Clara County

	<u>1976</u>	<u>1977</u>
	<u>1/1 - 12/31</u>	<u>1/1 - 12/31</u>
Number of Sales Transfers *	43,026	44,399
Number of Single-family Sales	37,229	39,113
Single-family Sales as % of all Sales	86.5%	88%
Number of Single-family Parcels	268,824	277,407
Single-family Sales as % of Parcels	13.9%	14.1%
Number of All Other Real Property Sales	5,797	5,286
All Other Sales as % of All Sales	13.5%	12%
Number of All Other Parcels	61,169	60,813
All Other Real Property Transfers as % of Parcels	9.5%	8.7%

*Includes sales of existing properties and of new parcels by subdivision; excludes quit-claim deeds and other technical transfers not qualifying as property transfers under Proposition 13. State Board of Equalization tables for the assessment year from 3/1/76 - 2/28/77 show 78,221 total property transfers of all types.

Source: Mr. Loren Leavitt, M.A.I., Chief Appraiser, Santa Clara County, California.

As a final note on the problems of statistics, it should be pointed out that the statistics of real property diverge from the statistics of housing in important respects. For example, the number of housing parcels is the number of separately recorded ownerships; each multi-family rental structure is counted in housing statistics by the number of dwelling units it contains. When a change in the rules of the real-estate game occurs, as has happened in Proposition 13, there is creation of new real-property parcels and ownerships through conversion of rental housing to condominiums. We are not yet sure how the statistics will reflect the conversion to cooperative (stock) ownership, which also occurs.

We now turn to detailed consideration of turnover in residential real property.

Turnover of Owner-occupied Dwellings *

Since there is major interest in the effect of Proposition 13 on the turnover rate of single-family homes, it would be useful to have solid information on what that rate had been prior to the election and its change in assessment practices. Unfortunately, little data exists except for partial counts of sales--through multiple listing services, for example. What is lacking is the inventory base from which those sales came. Another frequently cited piece of information is the average life of a single-family home loan, usually assumed to be about eight years; not all home purchases are institutionally financed, however, and loans may be refinanced for reasons other than sale.

A recent regression study in Alameda County provides information which may be more significant than a turnover rate per se, namely, that cross-sectionally over census tracts the Census-based turnover rate was not significantly influenced by common socio-economic variables (family income, race, family size, etc.), so that the best predictor of the turnover rate is, in fact, the average turnover rate: approximately ten percent per year. Again, this is a cross-sectional constant; there are undoubtedly seasonal and cyclical fluctuations in the rate which remain to be described.

Owner-occupancy turnover rates can be calculated from the decennial census. Counts of owner-occupied dwellings on the enumeration date can be compared with the number of homeowner households which moved in during the 15-month period preceding enumeration; the number of owner-occupied dwellings constructed during that same 15-month period can be subtracted from both entries in order to restrict the turnover rate to the existing inventory. With this

*Written by Wallace F. Smith.

adjustment and a correction for the 15-month period, estimated annual homeowner turnover rates for California metropolitan areas in 1969-70 are as follows:

Anaheim-Santa Ana-Garden Grove	.13
Bakersfield	.08
Fresno	.07
Los Angeles-Long Beach	.07
Modesto	.08
Oxnard-Ventura	.11
Sacramento	.09
Salinas-Monterey	.08
San Bernadino-Riverside-Ontario	.10
San Diego	.09
San Francisco-Oakland	.07
San Jose	.08
Santa Barbara	.09
Santa Rosa	.09
Stockton	.06
Vallejo-Napa	.08
all California metropolitan areas	.08
all California urbanized areas	.08
all California	.08

The 1975 Annual Housing Survey suggests possible explanations for the variation in turnover among metropolitan areas, namely that lower rates occur for central cities as opposed to suburban areas, for older housing units, and for elderly homeowners as opposed to child-raising families. The following rates were calculated from the 1975 Survey--which does not permit the extraction of newly constructed units and so is not entirely comparable to the 1970 information:

	<u>Central City</u>	<u>Not in Central City</u>	<u>Total</u>
San Francisco-Oakland SMSA			
All owner-occupied units built	.07	.10	.09
built 1939 or earlier	.05	.06	.06
husband-wife households, no non-relatives	.07	.10	.10
head age 65 or over	.01	.01	.01
1-person household, age 65 plus	.01	.04	.02
San Diego SMSA			
All owner-occupied units			.12
built 1939 or earlier			.06
husband-wife households, no non-relatives			.12
head age 65 or over			.05
1-person household, age 65 plus			.05

Sample sizes in the Annual Housing Survey are very small, and these rates--particularly those for elderly households--have large standard errors.

Available home turnover data are inadequate for development of reasonably robust model from which the impact on turnover of property tax changes could be inferred. Some insight into likely response can, however, be gained from consideration of hypothetical but realistic homeowner options under assessment practices and property tax rates pre- and post-Proposition 13.

Effects of Reassessment on Sale of Owner-occupied Housing

Proposition 13 provides that property is to be assessed at its 1975-76 market value plus two percent per year so long as ownership remains unchanged. A change of ownership means that assessed value is changed immediately to accord with market value at that time (presumably as indicated by the price paid). This means that a family desiring to change its dwelling--because of a change in its job situation or family size, perhaps, or simply to upgrade its housing--incurs a financial penalty in the form of stepped up property tax liability. Quite apart from legal questions arising from this provision of Proposition 13 (which are treated in other portions of this study), reassessment on sale might seem likely to discourage homeowner mobility. If this effect were substantial, the replacement demand for housing might be weakened and the level of new construction would fall. Families would be more likely to stay put, perhaps undertaking improvements in their present homes rather than shopping for new ones. How strong is this effect?

This question was put to a number of well-informed persons in the California housing industry--realtors, mortgage lenders, builders and others. The procedure was very informal, but the view was unanimous: there is pervasive uncertainty among buyers and sellers about how this provision will affect the housing market and strong judgmental belief on the part of industry professionals that it will not prove to be significant.

Informed professionals are not able to cite housing turnover rates per se; industry data in common use do not include such rates. But home sales indicators--numbers of listings and sales, trends in average prices and in loan volumes--do not yet reflect any clear impact of Proposition 13 as of September 1978. Most of these indicators were off somewhat during

the spring of 1978 in comparison with the hyperactive preceding spring; this could have reflected uncertainty about the upcoming Proposition 13 election, but the feeling is that it reflected other factors such as some increase in the cost of mortgage money and substantial fall-off of speculative/investor purchases of single-family homes. The rate of increase in average home prices sold through multiple listing was felt to be sharply lower in the summer of 1978--probably generally under ten percent per year--than it had been in early 1977, approximating thirty percent in some areas, but that decline had begun in mid 1977.

As for the direct impact of the reassessment rule on potential home sellers and buyers, informed practitioners feel that the generally lower level of tax rates robs changing assessments of their importance. As soon as one starts to put numbers on the relationship, however, it becomes obvious that "it all depends" on expected rates of appreciation and other partly subjective factors.

Table 2-3 carries out a hypothetical case in point. It assumes a family owned a home worth \$50,000 in 1975 which by 1978 had risen in value (at ten percent per year) to \$66,550; the family now contemplates selling this home to purchase one valued at \$90,000. Under Proposition 13 what is the property-tax effect of the move, and how will this effect change if the move is deferred to 1983 or 1988?

The table assumes market values rise uniformly at ten percent per year, and that pre-Proposition 13 tax rates are ten percent of assessed value. Beyond these assumptions it merely employs assessment and tax formulas written into law, including the homeowner exemption. (However, income tax consequences of changes in property-tax payments are not included.)

Table 2-3: Proposition 13 Effect on Hypothetical Homeowner's Decision to Move

	<u>1975</u>	<u>1978</u>	<u>1983</u>	<u>1988</u>	
<u>Present Home-Market Value</u>	\$50,000	66,550	107,179	172,613	Inc. 10%/year
Assessed Value-Pre 13	10,750	14,888	25,045	41,403	M.V. x25% - 1,750
" " -Post 13		46,060	51,583	57,680	'75M.V.+2%/yr. - 7,000
Property Tax -Pre 13	1,075	1,489	2,504	4,140	A.V. x10%
" " -Post 13		461	516	577	A.V. x 1%
<u>New Home-Market Value</u>		90,000	144,946	233,437	Inc. 10%/year
Pre 13 Assessed Value		20,750	34,487	56,609	M.V. x25% - 1,750
Post 13 Property Tax		2,075	3,449	5,661	A.V. x 10%
<u>Post-13, Buy 1978</u>					
Assessed Value		83,000	92,367	102,709	90,000 + 2%/yr.
Property Tax		830	924	1,027	A.V. x 1% -7,000
<u>Post-13, Buy 1983</u>					
Assessed Value			137,946	153,032	144,000 + 2%/yr
Property Tax			1,379	1,530	A.V. x 1% -7,000
<u>Post-13, Buy 1988</u>					
Assessed Value				226,437	233,437 - 7,000
Property Tax				2,264	A.V. x 1%
<u>Tax Increase on Move</u>					
Pre-13		586	945	1,521	
Post-13, Buy 1978		369	408	450	
" , Buy 1983			863	953	
" , Buy 1988				1,687	

Acknowledging that "it depends" to a considerable extent on the appreciation rate and pre-Proposition 13 tax rate assumed, as well as on the price gap between the new and the existing home, Table 2-3 points toward three distinct kinds of effects:

1. Proposition 13 lowers the tax penalty for the family which wants to upgrade its housing. Pre-Proposition 13, the move in 1978 would raise annual property taxes from \$1,489 to \$2,075, an increase of \$586. Under Proposition 13 the same move will raise taxes by only \$369 (\$830 minus \$461).
2. Proposition 13 provides a tax incentive for moving to a better home "now" rather than "later." If the family upgrades to the better house in 1978, the total property tax in 1983 is \$924, which is \$408 higher than the old house would have had in property tax for 1983. If the upgrade is postponed until 1983, the total tax on the new house in that year is \$1,379, or \$863 more than if the old house had been retained.
3. Eventually Proposition 13's reassessment begins to "lock in" the homeowner in the sense that when a sufficient number of years has elapsed, the tax penalty for buying a better home is greater under 13 than pre-Proposition 13. The jump in property tax is greater under Proposition 13 than without it. The hypothetical family which put off its move to 1988 would then incur a tax penalty of \$1,521 per year under pre-Proposition 13 rules, but \$1,687 with Proposition 13 in effect.

Of course the dollar difference may not seem great, particularly as it is a hypothetical comparison and one which ignores other factors that may enter into a decision to move. The dollar penalty would also be at least partly offset by the years of post-13 tax saving in the older house.

✓ The "lock-in" effect is clearest in the case of a family which must move for reasons other than a desire to upgrade its housing, because of a job change, for example. If this family sells its home in 1978 for \$66,550 and buys another for the same price, the Proposition 13 assessed value of its home rises from \$46,060 to \$59,550 and annual taxes go up from \$461 to \$596. The new figure is well below the pre-Proposition 13 tax of \$1,489, however, and that is likely to color the thinking of people in the market for some period of time.

✓ The interplay of factors involved in this comparison seems to justify the apparent widespread uncertainty among homeowners about what Proposition 13 really means to them. It is in fact a fairly complicated equation; the absolute dollar amounts, however, seem too small to worry about. That certainly corresponds to the largely subjective responses which were obtained from industry professionals.

III. PROPOSITION 13 AND THE CALIFORNIA HOUSING MARKET*

Homeowners - Basic Issues

Pending more definitive analysis of the Proposition 13 phenomenon, it is reasonable to assume that California's 3.9 million homeowning households were a principal force encouraging introduction of the measure, and that most homeowners voted for it. Owners of rental property stood to gain from reduction of property taxes, but this is not a numerous or cohesive group. Renter households could expect only indirect and partial benefits from Proposition 13 at best. But homeowners knew with certainty what Proposition 13 would do for them immediately; based on 1976-77 estimates from the Legislative Analyst's office, the average homeowner stood to gain \$35.24 a month through the reduction in property taxes. This is 57 percent of the average monthly property tax cost to homeowners, \$61.83. Both monthly figures would have escalated by 1978-79, of course.

Is this amount of saving sufficient to change the market behavior of homeowners, homebuyers, or homebuilders? Will other aspects of Proposition 13--the rule regarding reassessment upon sale, in particular--counteract these effects? Will the immediate benefits to homeowners be weakened, offset or perhaps intensified by changes in the provision of local government services, or by further fiscal reforms?

We can gain perspective on these questions by looking briefly at what was happening to the California homeowner's situation in the few years prior to Proposition 13. Household incomes had been rising sharply, reflecting not only general inflation but also a composite demographic factor of declining birth rates and increased labor force participation by married women. For example, in Santa Clara County between 1970 and 1975 household income per

* Written by Wallace F. Smith.

capita had risen 50.4 percent, of which 22.5 percent was attributable to this demographic factor and the remaining 27.9 percent reflected wage gains including inflation (from Urban Land Institute Research Report #27). Taken together, these two effective demand factors explain most of the price escalation of homes in California from 1970 to the present and help us understand why the resale and construction markets during most of the period have been strong despite the appearance that families were being priced out of the homeowner market. Certain families were indeed being priced out, but they were being replaced by other households for which homeownership might not have been considered a "normal" housing choice.

By informal estimates upwards of 80 percent of new homes in California have been sold over the past four or five years to childless, two-income households. According to a study of demographic characteristics of house purchasers for comparable four-bedroom houses in San Jose, 43% of the buyers in 1968 were two-person employed households. In 1976, two-person employed households constituted 88% of house purchasers, and the household size averaged 2.8 persons. (See Urban Land Institute Research Report #27, "Effects of Regulation on Housing Costs: Two Case Studies," 1977, Table 9.)

Where husband and wife both work the traditional reason for wanting a single-family home--to raise children--is absent. Tax and investment incentives, however, more than compensate for this; the single family home is well suited to the tax needs of an employed couple unwittingly moving into onerous personal income brackets, and also provides an excellent inflation hedge for savings. This demand pressure on new homes spilled over into the existing home market. As market values rose, home assessed values followed, given the principles which assessors are required to follow and

the improved techniques at their disposal for updating their single-family dwelling rolls. Tax rates did not fall in proportion, so property tax burdens rose, not just for those who were buying new or existing houses, but for all homeowners including those with single incomes and fixed incomes.

Table 3-1 describes the situation of a hypothetical but generally realistic fixed income homeowner between 1973 and 1978. A retired individual, for example, would be likely to be living in a debt-free home worth more than his or her current income would justify purchasing; property taxes would be the principal housing cost, taking 8.25 percent of income in 1973. Five years later, if home values increase at twelve percent per year (which approximates reality), assessments are updated, property tax rates do not fall, and the householder's money income remains fixed, property taxes take 15.87 percent of that income. Inflation, together with rising taxes, reduces non-housing purchasing power by almost 38 percent. This person is faced with a choice between homeownership and food, let alone the other good things of life. Any tax relief would be desperately desired. Sufficient tax relief would allow this person to remain in his or her home. As elderly people have less occasion to move (because of job changes or changing family size), the threat of reassessment upon purchase of another dwelling would have little meaning. For this person, Proposition 13 is a nearly unmitigated godsend. In the example of Table 3-1 supposing market value had reached \$60,000 by 1975, the new property-tax expense in 1978 would be \$1,020 per year less. Proposition 13 clearly helps these households stay where they are, which in itself should cause the inventory turnover rate to fall. In the past five years, undoubtedly, many fixed-income households in California were forced to sell their homes because of rising property values, assessments, and taxes.

Table 3-1: Inflation and Property Tax Burden on Hypothetical
Fixed Income Homeowner

Market Value of home	\$40,000	\$70,494	12% appreciation rate
Assessed Value	8.250	15,874	M.V. x .25 - 1,750
Property tax	825	1,587	assume 10% rate
Fixed income	10,000	10,000	
Property tax as percent of income	8.25%	15.87%	
Income after property tax	9,175	8,413	
Purchasing power (1973 \$)	9,175	5,726	assume 8% inflation rate
Loss of purchasing power due to property tax and inflation		3,449	= 37.6% of \$9,175

Effect of Proposition 13:

suppose 1975 market value
of home - \$60,000

then 1978 assessed value =	56,672	$60,000 \times (1.02)^3 - 7000$
and property tax =	567	
leaving for other living costs	9,433	
an increase in 1978 \$'s of	1,020	

For other homeowners the pre-Proposition 13 situation is far less clear. Property taxes are only a part of the fiscal burden on homeowners which state-wide measures can deal with, about 40 percent of the total of property, sales, and state income taxes paid by homeowners in 1976-77 (from Legislative Analyst study). The combined impact of these three taxes was moderately progressive, rising from about 8.5 percent of income at the \$10,000 to \$20,000 income level, to just under 11 percent of income when income was between \$50,000 and \$75,000. In terms of household income, the property- and sales-tax burdens were regressive; but this was more than offset by the structure of state income-tax rates.

For households whose current income was at least keeping up with inflation and whose home was appreciating faster than the general inflation rate while property-tax rates were relatively stable or even falling, it is not easy to see an a priori concern about property taxes per se. Putting the three major taxes together, however, and taking into account the combined effect of inflation (even if incomes rise at the same rate), the progressive structure of unindexed state income-tax rates, and the accelerated rise in property values, we can construct a picture of the overall tax burden which homeowners in 1976-77 might have forecast five years hence, by 1981-82. Figure 3-1 traces the composite tax burden as a percent of income for three situations--the actual pattern in 1976-77, the pattern which would exist in 1981-82 assuming 8 percent per year increase in incomes and in the consumer price index and escalation of house prices at 12 percent per year without reductions in property tax rates, and, finally, the 1981-82 situation adjusted

for Jarvis-Gann's direct effects--i.e., lower property taxes.^{1/} The two forecast lines thus assume real household income remains unchanged; inflation and the tax system cause the proportion of income going for these taxes to rise.

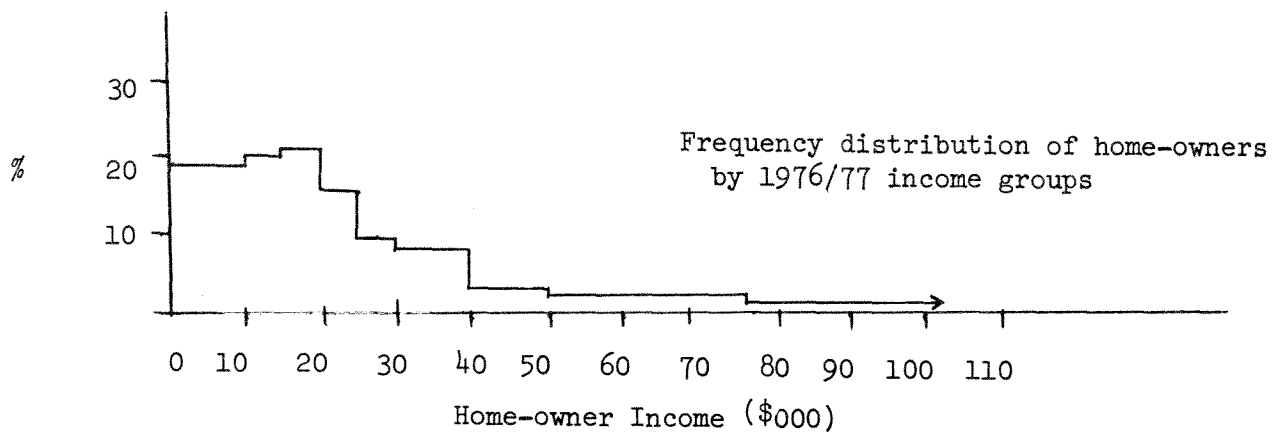
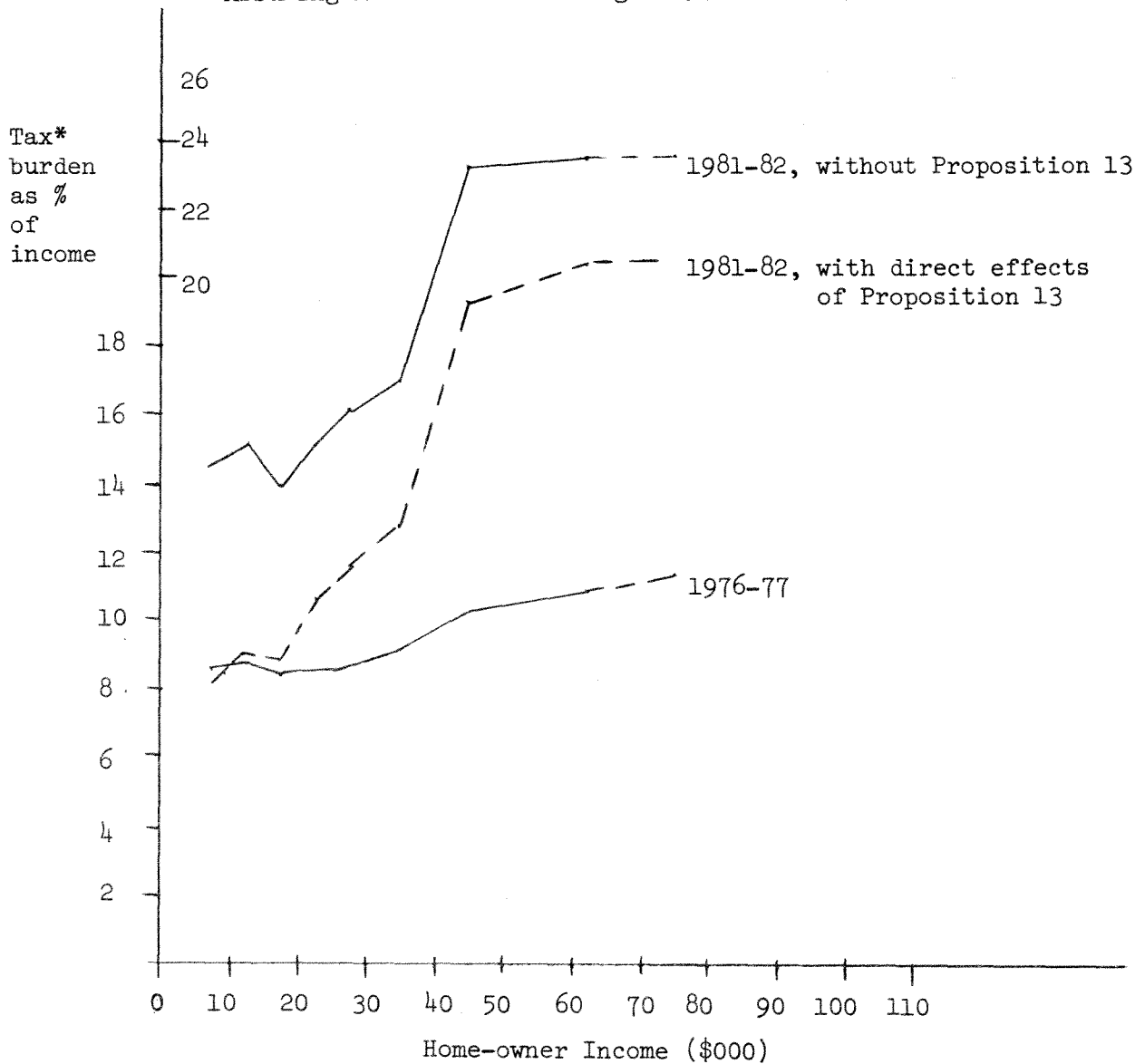
The pre-Proposition 13 projected escalation of tax burden is massive. (If Federal income-tax burden were taken into account, the projection would be still more alarming. Since Proposition 13 affected only state fiscal burdens, the role of the Federal income tax has been omitted from this analysis.) The homeowner in the \$10,000 to \$15,000 bracket (real, 1976-77 income) who paid 8.7 percent of income for property, sales, and state income taxes together in 1976-77 could see him or herself paying 15.2 percent in five years. For the \$40,000 to \$50,000 household (again, in 1976-77), the burden increases from 10.2 percent to a projected 23.2 percent of income. By earning enough to stay even with inflation, the household promotes itself into ever higher income-tax brackets. Despite the more rapid (assumed) increase in house prices and therefore in the property tax, in the aggregate by 1981-82, that tax still would account for just about 40 percent of the three-tax total. The unindexed income-tax structure just about compensates for the difference in the inflation rates assumed--8 percent for incomes and 12 percent for houses.

^{1/}The method of projecting tax burden for real income involves shifting the midpoint of each income class upward by $(1.08)^5$, calculating the enlarged width of that income class and allocating the original frequency in that class uniformly among all classes within that new width starting from the original lower limit of the class. It is an arbitrary technique which approximates the shifting that would be possible with more complete data, but which in this case slightly underestimates the upward shift in median income produced by an annual rate of 8 percent. Tax burden percentages for the lowest and highest classes are based on assumed midpoints and are consequently only generally representative. Income-related tax-payment data were taken from a study prepared by the Legislative Analysts Office in the Spring of 1978.

Figure 3-1

Effects of Proposition 13 on Projected Tax Burden - California Homeowners

Assuming Real Income Unchanged 1976-77 to 1981-82



*Sum of property, sales, and state income taxes. Source: see text.

The direct effect of Proposition 13 is to lower the whole structure of tax burdens relative to what might have been expected by 1981-82, but with respect to the structure existing in 1976-77, we have no real income gain to the taxpayer while the structure becomes sharply more progressive. The homeowner between \$20,000 and \$25,000 in 1976-77, paying 8.6 percent of income for these three taxes, will be paying 11.7 percent by 1981-82 after Proposition 13 (on the assumed inflation rates used here, and before indexing measures). That is better than the 16.1 percent burden which might have been anticipated before Jarvis-Gann, but it is still an increase in tax burden. Tax relief did not arrive with Proposition 13! (In developing these projections, secondary impacts of Proposition 13 upon state and Federal income tax liability were not taken into account. The benefit of Proposition 13 to homeowners is thus overstated.)

This exercise, however hypothetical, does seem to have two important implications for the prospective behavior of the homeowner market. One is that the complaint of the non-fixed-income owner is not primarily with the property tax, but with the overall level of taxation. In a very real sense, it is not extravagance of local government that consumes the homeowner's real income so much as it is the progressive structure of state income (and Federal) tax rates. This would say that homeowners supporting Proposition 13 were not necessarily asking for wholesale reductions in the level or the cost of local services. Local services will still play a role in the decision to select a home.

The second apparent implication is that without complete indexing of state--and Federal--income tax rates, homeowners are faced with continued increases in their real fiscal burdens which may be at least partly

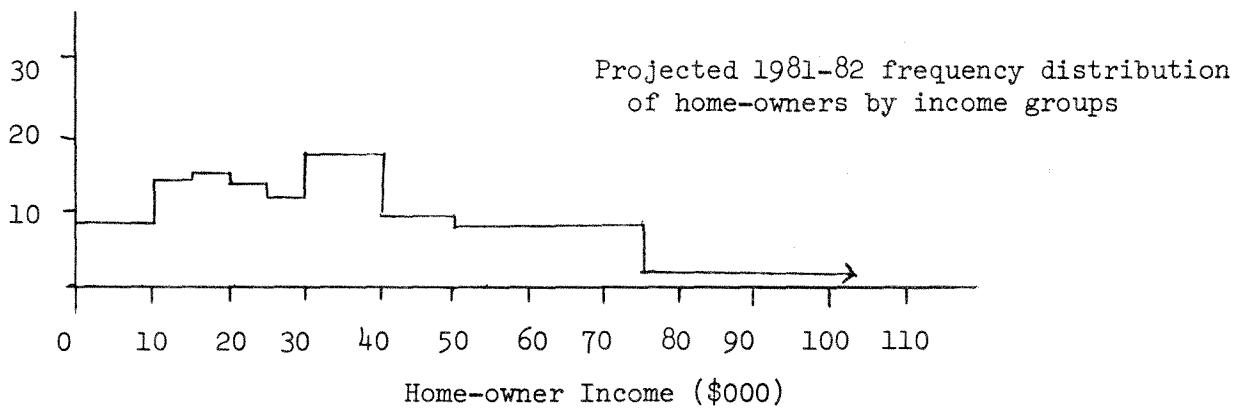
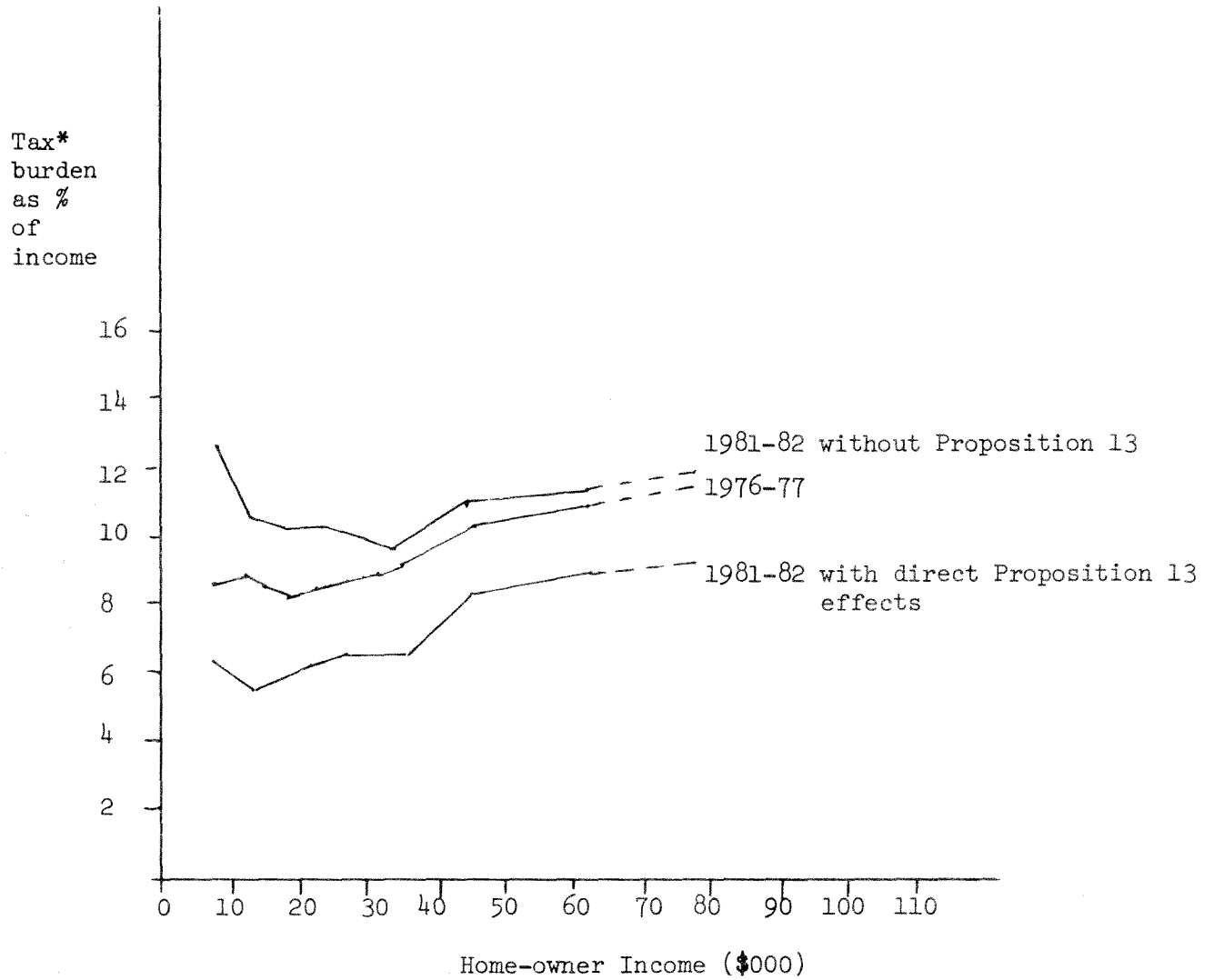
offset by almost tax-free appreciation of their homes. This is a time to settle more firmly than ever into home-ownership or to attain it if one can. Although it is difficult to translate appreciating property into cash flow to pay rising living and tax costs, that is the game toward which many households are being pushed--just about the only game in town. Proposition 13 encourages speculative holding and refinancing of real property, particularly in the context of inflation and lagging reform of other taxes.

Figure 3-2 shows projected 1981-82 tax burdens with and without Proposition 13's direct effect, in terms of current rather than real incomes. In 1976-77, a household with \$35,000 income was paying 9.1 percent of that income for property, sales, and state income-taxes; in 1981-82 a family with \$35,000 would be paying about 9.5 percent without Proposition 13 and 6.4 percent with Proposition 13. They are different families, however. The family with \$35,000 in 1976-77 would have an income of more than \$51,000 five years later, assuming an 8 percent rate of increase. Figure 3-2 shows an apparent across-the-board easing in tax burden resulting from Proposition 13, but that is quite misleading.

It should be noted that both Figures 3-1 and 3-2 assume homeowners do not move their places of residence between 1976-77 and 1981-82, that is, the increase in property taxes post-Proposition 13 is limited to 2 percent per year after first being reduced by 57 percent of the initial level.

Figure 3-2

Projected Current Income Burden of Major California Taxes
on Homeowners, 1981-82, and Effects of Proposition 13



*Sum of property, sales, and state income taxes. Source: see text.

Property Transfer Mechanisms

Because the great majority of owner-occupied housing changes hands with the assistance of mortgage financing and of real-estate brokers and title companies, the recording of a deed will surely continue as the dominant form. Contracts of sale have on occasion been used in the past, however, for either of two purposes:

First, there was a recent flurry of interest in them as a means of circumventing the "due-on-sale" clause that is standard in most mortgage terms. This clause enables the lender to force a new negotiation of mortgage terms rather than its acceptance, automatically, of assumption of the outstanding mortgage by the new buyer.

In *Tucker vs. Lassen Savings and Loan Association* (1974), the California Supreme Court invalidated enforcement of a due-on-sale clause when the property was sold by land contract. In *Wellenkamp vs. Bank of America* (1978), the same court held that an institutional lender could not ordinarily enforce due-on-sale.

While brokers' associations have advocated use of a model contract of sale, it does not seem likely that this alternative to outright ownership transfer will become important in ordinary real-estate transactions.

A second way in which contracts of sale have been used is the conveyance of property in inner-city, depressed areas, where the costs of property transfer through deed recording and the problems of financing are historic barriers to real-estate transactions. There is deep objection among expert observers of the real-estate market against the use of contracts of sale in such situations; for the normal protections to both seller and buyer are not available, title may be clouded, and other aspects of the transaction may go wrong to the great disadvantage of the parties.

The Diminished Lure of the Suburbs

Proposition 13 poses at least a potential threat to further development of suburban infrastructure which could materially reduce the incentive and/or opportunity for urban households to leave central cities. This aspect of Proposition 13, rather than the change in assessment practices, seems far more likely to cause a slowdown in the turnover rate of owner-occupied housing.

The traditional U.S. urban property tax makes suburban expansion essentially self-financing. A new tract of houses may require a new fire station, but it creates the locally controlled tax base to pay for that fire station--its construction, equipment, and operation. As the tract fills, the fiscal base beneath a central-city fire station may weaken, but the suburban community does not have to solve that problem. Suburban infrastructure will perforce be newer and probably more attractive than that in the central city, thus adding to the pull which suburbs exert on households and contributing to the rate of turnover and of replacement of housing inventory.

Under Proposition 13, with its one percent limit on property taxes and restricted growth of assessments, new suburban infrastructure is not likely to be fiscally self-justifying. State funds may be allocated to support new infrastructure, but thus far no permanent assurances to that effect have even been suggested by state government. The automatic link between public infrastructure expense and public revenue has been broken. Suburban communities, where most new single-family home construction takes place, must henceforth be very cautious about approving or annexing developments. Such communities can levy greatly enlarged permit fees as a partial means of

recouping the loss of property tax base for new developments, and this practice is apparently spreading very rapidly. It presents developers with an interesting dilemma: if they contest the increases in fees (on grounds that they are new taxes and thus prohibited by Proposition 13), they could force communities to suspend development permits altogether.

The removal of public-school costs from the local property-tax as a result of Proposition 13 is welcomed by some real-estate brokers and developers--perhaps a majority. If there was one element in the pre-Proposition 13 fiscal equation which tended to make housing developments unattractive to the community, it was the fact or belief that school expansion tended to raise average school costs and hence to increase taxes for present residents. Now the community need not concern itself about increased school costs. The remaining tax levy in addition to new-development fees and user fees may cover the remaining public infrastructure and service costs, with a net improvement in the developer's fiscal impact argument for permits in some cases.

What has happened since the passage of Proposition 13? The fact is that significant other factors enter in, as well as the considerable lag between local approvals and construction, to obscure the impact of Proposition 13 on single-family home construction. Interest rates rose perceptibly in late spring 1978; on the other hand, there was a spurt of starts in June to avoid new energy requirements which took effect in July. By mid-summer, starts seemed somewhat low, but industry professionals did not attribute this to Proposition 13. Indeed, it seems reasonable to suppose that there remains an inventory of serviced land which can keep construction going--perhaps at a modest level--while state government develops longer-run systems for channelling suburban tax revenues back to the support of suburban functions.

The Rental Market

Owners of rental housing stood to benefit significantly from lowering of the property tax rate through Proposition 13. From data developed by the Legislative Analyst's office, it appears that for 1976-77 twenty-four percent of gross rental income in such properties was going to pay property taxes. Given the normal leveraging of ownership, a reduction of nearly sixty percent in this expense would materially improve cash flow. Even allowing for the increase in income-tax liability of owners, this change in the economics of owning might have been expected to stimulate investment in and construction of rental housing.

It begins to appear that Proposition 13 has made the rental-housing investment climate worse instead of better--based on conversations with informed professionals. The reason is that rent control has become far more likely--at some level and in some form--because of tenant complaints that they did not share in the benefits of Proposition 13 as many clearly expected they would. The issue is intensely political, but there is a perceptible effect upon the market; owners are described as "wanting out." Conversion to condominiums or cooperatives has become even more attractive for these investors.

There may thus be a short-lived and aberrant spurt in the sale of residential rental properties as investors attempt to liquidate these holdings. The reassessment-on-sale provision of Proposition 13 does not seem likely to be a material consideration in these sales. Indeed, as California rental property assessed values appear based mostly on gross income multipliers, it is far from clear which way typical assessed values are headed.

Among California's renter households, the percentage of income going for rent decreases as income rises, but the proportion of that rent which is accounted for by property taxes is virtually constant across income levels (from 1976-77 data in Legislative Analyst office report). (See Table 3-2.) Thus, if landlords were forced to return their Proposition 13 windfall to tenants, the effect would be a greater proportional benefit for low-income tenants than for high-income tenants.

Table 3-2: Rent and Property Taxes in Relation to Tenant Income
1976-77 California Renter Households

<u>Total Family Income</u>	<u>Percent of Renter Households</u>	<u>Rent Paid as Percent of Midpoint Income</u>	<u>Property Tax as Percent of Rent Paid</u>
Under \$5,000	26.9%	n.a.	n.a.
\$5,000 - 7,500	16.2	30%	24%
7,500 - 10,000	14.7	23	24
10,000 - 15,000	22.4	18	24
15,000 - 20,000	11.1	14	25
20,000 - 25,000	4.7	13	25
25,000 - 30,000	1.9	12	25
30,000 - 50,000	1.6	9	25
50,000 & over	0.5	n.a.	n.a.
	100.0%		

Source: Legislative Analyst report, p. 29.

IV. PROPOSITION 13 AND NON-RESIDENTIAL REAL ESTATE

Owners of business real property will benefit from both the "base year" treatment (1975-76 fair market value as basis for assessment of property under continuous same ownership) and the one percent maximum of property tax on current fair market value.

"Base-year" benefits to business owners will be particularly large, of course, wherever a sharp escalation in actual economic value has occurred since 1975-76. Here are examples:

1. Oil in the ground, or coal reserves, which may have already ballooned in value since the base year and which, it may be argued, qualify for base-year valuation plus two percent per year;
2. "Improvements" that have low cost when made, but increase markedly in economic productivity with the passage of a few years. An example given by the State Board of Equalization is the treatment of orchards (and, presumably, vineyards). When young trees are planted, they have low cost per unit as property improvements. After five to seven years, they reach peak economic productivity, but assessed value is based upon fair market value (presumably, close to the installed cost) at the time of planting, plus two percent per year compounded. Thus, the orchard is taxed on a grossly understated basis for the years of peak productivity.

Then ensues an irony: Proposition 13 as passed in June 1978 contains no mechanism, according to the State Board of Equalization, for reducing assessed valuation when the economic value of real property falls, as indeed it can. In the orchard case, the declining value of older trees cannot be reflected in decreased property tax; on the contrary, the clock keeps ticking

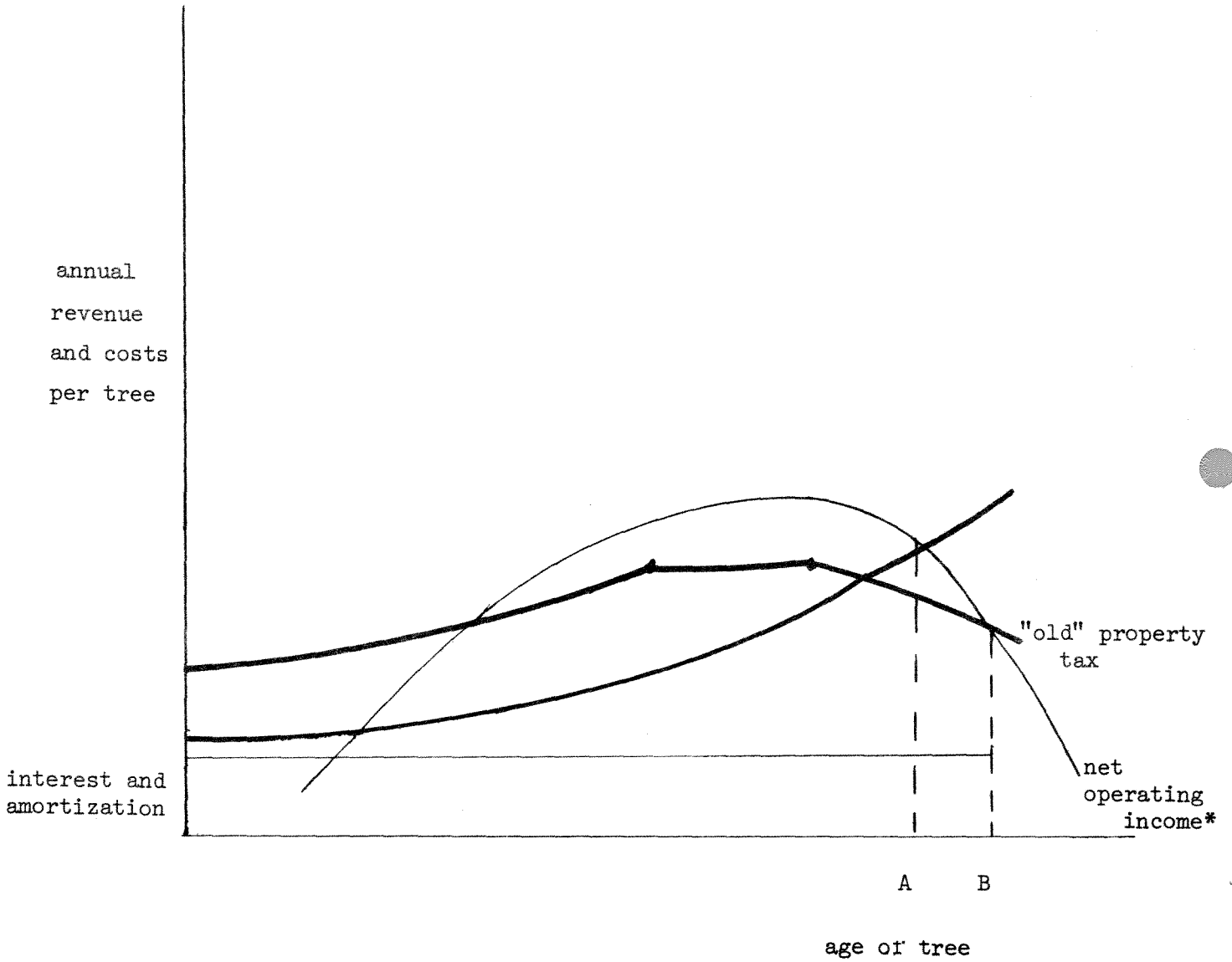
at a two percent per year increase in adjusted fair market value and thus in assessed value. Because the reduced productivity of old trees cannot be recognized in lower taxation, the orchard operator is rationally obliged to pull out the old trees sooner than he otherwise would and replace them with new planting. The one-percent limit on property tax does decrease the property-tax costs of holding the asset by approximately 57%, as against the pre-Proposition 13 situation, a factor which gives the orchard owner incentives to hold the old trees longer. Figure 4-1 shows the effects of the two factors. Here, the investment cost of the tree is assumed to be annualized as an interest and amortization charge. The economic life of the tree is shortened from B years to A years because property tax cannot be adjusted downward when the net operating income of the tree falls in the later years.

The size of the benefit of base-year treatment will grow at a compounded rate over time if market values of business real property grow by more than two percent per year. Suppose, for example, that market valuation grows for ten years at the recent general inflation rate of 8%, compounded. The provision for two percent per year escalation is six percentage points less, thus the net differential grows by approximately six percent per year compounded. By the end of the tenth year, each dollar of base-year value, compounded at 8%, will have grown to \$2.1589. Assessed value will have grown to \$1.2190. The differential is \$0.9399, and the tax paid (at the one percent tax level) through "base year" treatment is only 56% of what would be paid at one percent of the tenth-year fair market value in this example.

Base-year treatment is preserved by maintaining continuous same ownership. The example shows that advantageous tax treatment will grow to substantial proportions over time, and the incentive to preserve it will become greater and greater.

Figure 4-1

Economic Life of a Tree Having Varying Productivity over Time



*annual net operating income = total revenue per tree minus labor and materials costs of maintenance and harvesting.

Types of Business Property Transactions

Business entities can arrange any of a wide variety of real-estate transactions, including choice of the legal instrumentalities (corporation, corporate subsidiary, limited partnership, personal nominee, etc.) to act as seller and as buyer, and the choice, also, of contractual device: straight ownership transfer; conventional leasehold; sale and lease back; contract of sale, etc. (See Maisel and Roulac, 1976.) Timing and characteristics of these business real-estate transactions have long been influenced by tax considerations. The influence of Proposition 13 is only one such case in point and, very possibly, not the most significant. (For example, the U.S. Congress is considering extensive reductions in the capital gains tax; if these become law, they may outweigh in significance for transaction-making the reduced annual payment liability of property taxation.)

In order to preserve "base-year" property-tax assessment, business owners of real property will need to avoid property transfers as defined in Proposition 13 and in Senate Bill 154 and Senate Bill 2212, the implementing legislation passed in late June 1978. Change of ownership has been defined to include recorded and unrecorded transfers of legal or equitable title, with certain exclusions that are not pertinent to business transactions in general. (See State Board of Equalization, No. 78/120, July 11, 1978.) Leases of more than ten-year term qualify as property transfers under these new rules.

As executives and their legal and tax advisors become more familiar with the possibilities, there will no doubt be many ingenious solutions to the problem of defining contracts to greatest mutual advantage of owner and user. Financing agencies are often deeply involved also in the determination of the most advantageous treatment of business deals.

The complications from Proposition 13 concerning the property-tax liabilities of the Irvine Company and of the many owners in the major development of the city of Irvine in Orange County are considerable. Two factors produced special problems: the widespread use of long-term land-lease agreements in that development and the sale of controlling interest in the Irvine Company in 1977. It will be some time before the issues are finally resolved.

Many commercial properties, in California and elsewhere, are occupied by tenants on rental contracts that are "net" contracts. The tenant agrees to pay all utilities, insurance, and property taxes (and may, indeed, agree to pay some other annual expenses). The owner receives a net payment for the use of the land (or land and structure) only. Owners have often regarded this as advantageous because it has protected them from the inflationary cost increases of the past few years. Now, with the passage of Proposition 13, there is a dramatic reversal of form: the business tenant receives the benefit of the reduction in property tax to a 1% ceiling and the reduction to "base-year" treatment to the date the lease came into force. Until the lease term is up, the property owner cannot obtain a share of the cost reduction; it goes as a windfall to the tenant. If the owner of the property were to sell it, however, the new rules of the game call for reassessment at fair market value at the time of property transfer. The larger windfall is ordinarily the reduction of tax to the one-percent level, but owner can threaten to inflict on tenant the loss of the base-year treatment. With this leverage, owner may be able to claim a share of the windfall immediately. The greater possibility for capture of a large portion of the property-tax reduction comes, of course, when the lease expires and is due for renegotiation.

At this point, owner may take the position that lessor should be willing to pay occupancy costs as high as were implicit in the earlier lease agreement, including the effect of property taxes. In this way, owner is claiming a gain that in due course should mean capitalization of the tax reduction into increased property value.

Business Property Transaction Volume

While non-residential construction trends are measured and reported regularly from permit data for each region of California, there is no convenient source of regional or statewide data on business-property transfer transactions. The staff of the State Board of Equalization may soon collect data on the volume of business-property transfers from county assessors. To be useful for analytical purposes, total business-property transfers would need to be broken into classes of business property: industrial, agricultural, extractive industries, office, commercial.

For example, the Real Estate Research Council of Northern California uses quarterly totals of deed recordings in each county, obtained from County Recorders, as a measure of real-estate-market activity. (See Northern California Real Estate Report, Vol. 29, No. 5 (1978), pp. 23-24 for an example.) County governments--in the offices of the Recorder of Deeds and of the Tax Assessor--have data on file from which measures of transaction volume in each property category could be constructed. But for maximum comparability of transfer data, the files of each county should be in a uniform property-classification system so that aggregation and comparisons could be undertaken.

County assessors do have new problems of identifying some business deals that qualify as property transfers under Proposition 13 and the implementing legislation. In particular, business firms do not always need, from their point of view, to record leases and contracts; yet any lease of ten-year term or longer qualifies as a property transfer for the purposes of property-tax treatment under Proposition 13. Assessors will probably use such clues as utilities hook-ups and mail changes to trace such business transfers, as

they already do for checking homeowner's tax exemption claims. In addition, the business-property statement that each business entity is required to file will be expanded to include information on leases by having assessors ask for direct reports in future from the business entities themselves on the status of any lease on the property in question.

Business Property Exclusions from Proposition 13 Treatment

The State Board of Equalization has authority under California statute to undertake direct, statewide assessment of certain types of business property. These include the real property owned by regulated gas and electric utility companies, telephone companies, and railroads. Also, radio telephone companies and some water companies fall under the State Board of Equalization's direct jurisdiction, and so does the assessment of timber values. The State Board of Equalization has taken the position that Proposition 13 did not cover these special cases and that it may continue to assess these regulated industries on the basis of current fair market values. A Superior Court decision upheld the State Board of Equalization position, but appeals and other litigation may leave this issue unresolved for some years. With respect to gas, electric, and telephone utilities, if a reduction of property-tax liability did occur because of the imposition of the base year and the one-percent limit provided by Proposition 13, the Public Utilities Commission would undoubtedly take account of the cost reduction and order a comparable reduction of utility rates. Thus, the chief effect of including the regulated public utilities under Proposition 13 would be not to increase their profits but to reduce utility rates and to reduce governmental tax revenues.

State law already provides a special basis for evaluation of timber in that tax payment is made at the time of timber harvest. We cannot attempt here to explore further the possible consequences of Proposition 13 on the forest-products industries.

Effects of Proposition 13 upon Other Business Investment Decisions

Some business investment decisions have a large component classified as real property, whereas others are concerned mainly with machinery and equipment or with the acquisition of other productive assets not considered to be real property. A general consequence of Proposition 13 is that the real-property component of a business investment will now have a reduced annual holding cost. If no other changes of the cost and revenue elements of the investment decision occur, this reduced holding cost will cause some business investment possibilities that were previously rejected to become attractive.

Some campaign arguments before Proposition 13 was passed claimed that it would stimulate business investment in California. At this time, it is necessary to be cautious about the consequences. As far as new factory investment is concerned, most previous studies of industrial locational decisions put the annual cost of property taxation low on the list of considerations. Access to markets, availability of labor, and quality of local-government services (including the quality of schools) have been found generally to be of greater importance to the locational decision.

Another type of business investment decision also illustrates the current uncertainties. Developers choose sites for planned regional shopping centers on the basis of expected growth in the population of the regional area and the concurrent development of road systems and other infrastructure for residential communities. While the post-Proposition 13 property-tax costs of a new regional-shopping-center complex would be lower than before, and this cost reduction would make the potential investment more attractive, the rate of population growth of the area might be slowed by the increased costs of the residential developer and by slower actions of local government

agencies in approving residential developments. The sales-revenue potential of a shopping-center development is a far more crucial variable in the investment decision than is the annual cost of property taxes.

Thus, it will take further analysis, and the unfolding of new evidence over a period of time, to determine the consequences of Proposition 13 for business investments.

V. OTHER ISSUES

Proposition 13's impacts upon real-estate markets and property transfers need to be analyzed with regard to several additional issues not already discussed.

County Assessors' Problems of Perfecting the Tax Rolls

At the time of passage of Proposition 13, county assessors faced two massive problems: to trace the appropriate base-year assessed value of each parcel and to send to each taxpayer an up-to-date tax bill, including the effect of any transfer or improvement to the property, as well as the permissible inflation increment of two percent per year. Many taxpayers apparently believed that the assessed value shown on their original 1975-76 tax bills would be correct. The State Board of Equalization, however, was aware that assessments for that year were based upon varying practices. In some cases, comparable sales for previous years as well as for 1975-76 had been used. In others, a field appraisal from several years before had simply been updated by formula. Because Proposition 13 stated, and was interpreted to require, an assessment based upon 1975 only, the guidelines said that assessors should go back and recalculate the 1975 base-year fair market value for each parcel. Then, the two percent annual increment could be added to the corrected base-year value. Any property improvement would be added to the assessed value as of the date of the improvement.

In addition, the assessor needed to trace any ownership transfers--including only those qualifying transfers as defined by the June 1978 implementing legislation, and excluding purely technical transfers--and

modify the assessed value to the fair market value at the time of the transfer. This is not a purely mechanical procedure because some transfers require field work and other corroborating information to identify.

County assessors did not have sufficient staff to undertake simultaneously both of these tasks before issuing new "Prop. 13" assessed values to taxpayers, and each county assessor chose how to deploy the available staff. The law apparently permits supplemental tax bills to be rendered to taxpayers, based on corrected values, at any time up to several years after the event. It is likely to be a year or more before all of the assessment problems from the passage of Proposition 13 are fully disposed of. In the meantime, there will remain some uncertainties for both business-property owners and homeowners.

Appraisal Standards for Mortgage Financing

Mortgage underwriting for owner-occupied housing ordinarily involves primary attention to the fair market value of the property at the time of mortgage application, but there is also some consideration of the owner's income position and ability to cope with the costs of home ownership. Reduction in property-tax payments eases these costs. For this reason, security analysts, evaluating the portfolio quality of savings and loan associations soon after passage of Proposition 13, offered the judgment that existing mortgages were improved in soundness.

Appraisers of rental housing for mortgage-financing purposes are very specific in analyzing the ability of the property to "carry" the proposed loan. In the early months after passage of Proposition 13, however, appraisal standards and formulas were not adjusted to take account of the expected reduction in property-tax liability. Instead, real-estate appraisers continued to use the same multipliers as before in calculating the capital valuation of rental property. Until the county assessors made definitive determinations of assessed values, appraisers resisted making downward adjustments of property-tax payments. Also, tenant groups, state political leaders, and city councils began almost immediately to talk of voluntary or compulsory rent rollbacks and possible rent control. A rent rollback approximately equal to the reduction in property-tax payment would leave the owner of rental property in essentially the same net-income position as before Proposition 13; and the conservative response of appraisers might well be, therefore, to leave appraised values unadjusted until the question of rent rollback became clarified.

A Remedy Needed for the Lack of Downward Adjustability in Assessed Values

From the standpoint of its effects on rational decision-making, the most glaring weakness of Proposition 13 is the lack of a means for reducing the assessed value of a property if its market value or its economic productivity falls. The owner-occupant of housing would be affected in the event of severe deterioration in local real-estate values. Also, if a home purchased before 1975 is damaged by fire, flood, or other catastrophe and must then be replaced at a much higher construction cost, the assessed valuation would not be reduced when the loss occurred, but would be increased at the current market valuation as of the time of the replacement.

Owners of business property have specific needs for adjustment of assessed valuation and annual tax liability if value of property is reduced by casualty loss or decline in productivity. We earlier discussed some anomalous consequences in Section 4.

Clearly, some remedy is needed for the lack of downward adjustability of assessed value. The State Board of Equalization takes the position that under present law such downward adjustments cannot be made at the discretion of the county assessor. The constitutional status of Proposition 13 appears to require that the remedy be another constitutional amendment.

In the past, different local jurisdictions adopted policies of providing from property-tax revenues differing mixes and qualities of educational services; water, sewer, and other utilities; and other local services. Also, the costs of producing these services sometimes varied according to the relative efficiency of local governments and were affected by economies or diseconomies of scale in the production of governmental services.

Proposition 13, at one stroke, eliminated the differentials in property-tax payments as related to governmental services. Taxpayers could previously choose between a higher-service and higher-cost community and a lower-service, lower-cost community. As local governments must now adjust to a new budgetary reality in which revenues are much less subject to local decisions, these options and choices will now be reduced. Property taxpayers will not face differences in tax liability from locality to locality for the costs of local services. In the long run, communities are likely to become more similar in overall levels of service, though still differentiated in the composition of services provided and in the effectiveness of local government.

Concluding Comments About Proposition 13's Impacts on Real-estate Markets

The new conditions in the markets for both housing and nonhousing real estate include not only an unequivocal, permanent reduction in the cost of holding existing property, but also a series of other effects that are uncertain in direction and magnitude. The early response of decision-makers to this uncertainty has, quite naturally, been to "go slow" in adjusting to the new market conditions.

It appears that Proposition 13 imposes some penalty to an acknowledged property transfer; thus, we may see more use of contracts of sale and of unrecorded lease agreements, unless participants in real-estate markets become convinced that county assessors can quickly find and deal with such unrecorded transfers. With the incentives for concealment, adequate enforcement will require more resources in county assessors' offices.

APPENDIX A

Documentary Sources

- Aaron, Henry J. Shelter and Subsidies: Who Benefits from Federal Housing Policies? Washington, DC: The Brookings Institution, 1972.
- Bartlett, Robert. "Proposition 13: Three Utilities Sue for Assessment Cuts." San Francisco Chronicle. San Francisco: San Francisco Chronicle, July 26, 1978.
- Bell, Douglas D., Executive Secretary. "Order Adopting Regulations of the State Board of Equalization." Sacramento, CA: State Board of Equalization, July 3, 1978.
- Bulkeley, William M. "Interest Rates on Prime Home Mortgages Are Cut by California's 2 Biggest S & L's." The Wall Street Journal. Los Angeles, CA: The Wall Street Journal, Aug. 15, 1978.
- Calais, Al. "Stable Taxes to Help Farmers Cut Losses." Los Angeles Times. Los Angeles, CA: Los Angeles Times, July 24, 1978.
- California, State of. California Statistical Abstract. Sacramento, CA: 1976.
- Proposition 13: Tax Limitation--Initiative Constitutional Amendment. Sacramento, CA: 1978.
- Senate Bill No. 154, Chapter 292. Sacramento, CA: State of California, June 24, 1978.
- Senate Bill No. 2212, Chapter 332. Sacramento, CA: State of California, June 30, 1978.
- Taxable Sales in California: Sales and Use Tax. Sacramento, CA: State Board of Equalization, 1976.
- Cohn, Lee M. "Analyzing the Ripple Effect of California Tax Cuts on Nation." The Washington Star. Washington: The Washington Star, July 7, 1978.
- Crocker Bank, Economics Department. "California and the Jarvis-Gann Amendment: An Economic Perspective of the Adjustment Process." California Economic Report. San Francisco: Crocker Bank, July 14, 1978.
- Dunne, Finley Peter. "An Acid Test for Proposition 13." Business Week. Hightstown, NJ: McGraw-Hill Publishing Co., Sep. 4, 1978.

Ellickson, Robert C., "Why Housing Prices Went Through the Roof. Pileup of Environmental Restrictions Found to Coincide with Climb in Costs." Los Angeles Times. Los Angeles, CA: Los Angeles Times, July 24, 1978.

Hagman, Donald G. "How to Comply with Jarvis/Gann and Raise Taxes on Property at the Same Time." Los Angeles, CA: University of California School of Law, 1978.

_____. "Proposition 13: A Prostitution of Conservative Principles." Los Angeles, CA: University of California School of Law, 1978.

_____. "Reform of Local Government, California Style." Los Angeles, CA: University of California School of Law, 1978.

Hall, Kenneth F., and Edward R. Gerber and Associates. "Legislature Faces Heavy Prop. 13 Agenda." Prop. 13 Impact Reporter. Sacramento, CA: California Research, July 10, 1978.

Kimbell, Larry J. "The California Economy." Research Conference on Proposition 13. Los Angeles, CA: UCLA Business Forecasting Project, Graduate School of Management, University of California, Los Angeles, July 13 and 14, 1978.

League of California Cities, Committee on Community Development. "Action Plan for the Return of Home Rule and Fiscal Responsibility." New League Action Plan--For Your Review and Comment. Action Plan for the Return of Home Rule and Fiscal Responsibility, Policy Committee Issues Papers. Sacramento, CA: July 17, 1978.

Lee, Eugene C. (with Terry Larson). "California Primary Politics: 1960-1978." California Data Brief. Berkeley, CA: Institute of Governmental Studies, University of California, Vol. 2, No. 3, May 1978.

_____. "750 Propositions: The Initiative in Perspective." California Data Brief. Berkeley, CA: Institute of Governmental Studies, University of California, Vol. 2, No. 2, April 1978.

Liebert, Larry. "A Prop. 13 Talk with Brown." San Francisco Chronicle. San Francisco: San Francisco Chronicle, July 26, 1978.

Los Angeles Times. "Nevada Group Claims Victory in Tax Drive." Los Angeles, CA: Los Angeles Times, August 8, 1978.

Maisel, Sherman J., and Stephen A. Roulac. Real Estate Investment and Finance. New York: McGraw Hill Publishing Co., 1976.

Mark, Morris. "Housing and Construction Commentary, Proposition 13." Investment Research. New York: Goldman Sachs Research, June 30, 1978.

- Mikesell, Stephen D. "Prop. 13: The Struggle to Save California's Way of Life." Los Angeles Times. Los Angeles, CA: Los Angeles Times, July 23, 1978.
- Northern California, Real Estate Research Council of. Northern California Real Estate Report. San Francisco: Real Estate Research Council of Northern California, Vol. 29, No. 5, 1978.
- _____. "Market Trend--April 1978, Bay Area and Sacramento Residences." Northern California Real Estate Report. San Francisco, CA: Real Estate Research Council of Northern California, Vol. 30, No. 1, 1978.
- Reilly, Ann M. "After Jarvis What?" Dun's Review. New York: Dun and Bradstreet Publications Corp., Vol. 112, No. 1, July 1978.
- Rivlin, Alice M., Director. "Proposition 13: Its Impact on the Nation's Economy, Federal Revenues, and Federal Expenditures." Washington, DC: Congress of the United States, U.S. Government Printing Office, July 1978.
- San Francisco Chronicle. "EBMUD Won't Seek Bailout Funds." San Francisco: San Francisco Chronicle, July 26, 1978.
- _____. "Mayor May Veto Repeal of Tax Raise." San Francisco: San Francisco Chronicle, July 26, 1978.
- Security Pacific Bank, Research Department. California Construction Trends. Los Angeles, CA: Security Pacific Bank, Dec. 1977.
- _____. "Economic Trends in the Seventies." Central California. Los Angeles, CA: Security Pacific Bank, Nov. 1977.
- _____. "Economic Trends of the Seventies." Northern Coastal California. Los Angeles, CA: Security Pacific Bank, May 1977.
- _____. "Economic Trends in the Seventies." Southern California. Los Angeles, CA: Security Pacific Bank, May 1977.
- Senini, Walter R. Chief of Operation, Property Tax Dept. "Proposition 13 Information: Answers to Some of the Frequently Asked Questions Regarding Proposition 13 Implementation." Sacramento, CA: State Board of Equalization, July 28, 1978.
- _____. "Statutory Implementation of Proposition 13." Sacramento, CA: State Board of Equalization, July 11, 1978.
- _____. "The Valuation of Orchards and Vineyards." Sacramento, CA: State Board of Equalization, July 27, 1978.
- Shulman, David. "For Land's Sake, What's Prop. 13 Done? Ironically, It May Be One of the Most Sweeping Land-use Laws in the Country." Los Angeles Times. Los Angeles, CA: Los Angeles Times, July 23, 1978.

Sokolow, Alvin D. "The Redistribution of California's Population: New Growth in Nonmetropolitan Areas." California Data Brief. Berkeley, CA: Institute of Governmental Studies, University of California, Berkeley, Vol. 2, No. 1, Feb. 1978.

Urban Land Institute. "Effects of Regulation on Housing Costs: Two Case Studies." Washington, DC: Urban Land Institute Research, Report No. 27, 1977.

APPENDIX B

Personal Contacts with Individuals (Phone, Mail, and in Person)
for Information and Assistance on This Research Project

Belden, Orrin, Chief Appraiser
Department of Savings & Loan
State of California
600 S. Commonwealth Ave.
Los Angeles, CA 90005

Jessee, Michael (Dr.)
Vice President & Chief Economist
F.H.L.B. of San Francisco
600 California St.
San Francisco, CA 94108

Berge, Howard, Senior Vice President
World Savings & Loan Association
1970 Broadway
Oakland, CA 94612

Leavitt, Loren, M.A.I.
Chief Appraiser
County of Santa Clara
Office of the County Appraiser
Real Property Division, County
Government Center, East Wing
70 W. Hedding St.
San Jose, CA 95110

Davis, James
Executive Vice President
Real Estate Research Council of
Northern California
57 Post Street
San Francisco, CA 94104

Perlis, Saul
Savings and Loan Commissioner
State of California
Savings and Loan Commission
Headquarters, Second Floor
350 Sansome St.
San Francisco, CA 94104

Dienstfrey, Ted
Director of Research
California Housing Council
1777 Borel Place
San Mateo, CA 94402

Rabin, Sol (Dr.)
Director of Research
Coldwell, Banker & Co.
555 South Flower St.
Los Angeles, CA 90017

Flory, Alan B.
Principal Property Appraiser
Assessment Standards Division
State Board of Equalization
1020 N Street
Sacramento, CA 95814

Ricks, Bruce (Dr.)
P.M.I.
Stanford Barn
Stanford, CA 94305

Graves, Thomas R.
Vice President and Economist
Security Pacific National Bank
Northern California Headquarters
1 Embarcadero Center
San Francisco, CA 94111

Stephenson, Shirley A. (Dr.)
Assistant Vice President
Public Affairs * Research Department
Security Pacific National Bank
Security Pacific Plaza
333 South Hope St.
Los Angeles, CA 90071

Hoag, James (Professor)
School of Business Administration
University of California
Berkeley, CA 94720

Hunt, Gary, Vice President
Irvine Company
Irvine, CA 92664

Swanson, Alvin L. (Jr.), President
Grubb and Ellis
Commercial Brokerage Company
1333 Broadway
Oakland, CA 94612

SELECTED INSTITUTE PUBLICATIONS

1979

- Balderston, Frederick, I. Michael Heyman and Wallace F. Smith
Proposition 13, Property Transfers, and the Real Estate Markets (prepared for the Commission on Government Reform). Research Report 79-1 56pp + Appendices \$3.00
- Bowen, Frank M. and Eugene C. Lee
Limiting State Spending: The Legislature or the Electorate (prepared for the Commission on Government Reform). Research Report 79-4 100pp + Appendices \$4.50
- Fletcher, Thomas, Dennis Hermanson, John Taylor, Shirley Hentzell and Dean Linebarger
Allocating the One Percent Local Property Tax in California: An Analysis (prepared for the Commission on Government Reform). Research Report 79-2 35pp + Appendices \$3.25
- McWatters, Ann Robertson
Financing Capital Formation for Local Governments (prepared for the Commission on Government Reform). Research Report 79-3 51pp \$3.00

1978

- Ames, Bruce N.
Environmental Chemicals Causing Cancer and Genetic Birth Defects: Developing a Strategy to Minimize Human Exposure. California Policy Seminar Monograph Number 2. 28pp \$3.50
- Bradshaw, Ted K. and Edward J. Blakely
Policy Implications of California's Changing Life Styles. California Policy Seminar Monograph Number 3. 30pp \$3.50
- Cooper, Michael D.
California's Demand for Librarians: Projecting Future Requirements. 128pp \$6.50
- Eckbo, Garrett
Public Landscape: Six Essays on Government and Environmental Design in the San Francisco Bay Area. 135pp \$7.75
- Gates, Paul W., Ronald B. Robie, John T. Knox and Norman Y. Mineta
Four Persistent Issues: Essays on California's Land Ownership Concentration, Water Deficits, Sub-State Regionalism, and Congressional Leadership. 79pp \$5.75
- Mullins, Phil, Thomas O. Leatherwood and Arthur Lipow, eds.
Political Reform in California: Evaluation and Perspective. Research Report 78-3 160pp \$6.50
- Nathan, Harriet and Stanley Scott, eds.
Experiment and Change in Berkeley: Essays on City Politics, 1950-1975. With 13 local authors. 501pp \$10.75
- Phillips, Kenneth F. and Michael B. Teitz
Housing Conservation in Older Urban Areas: A Mortgage Insurance Approach. Research Report 78-2 39pp \$3.50
- Pyle, David H.
Changes in the Financial Services Industry in California. California Policy Seminar Monograph Number 1. 17pp \$3.00
- Stebbins, Robert C., Theodore J. Papenfuss and Florence D. Amamoto
Teaching and Research in the California Desert. Research Report 78-1 26pp \$3.00
- Weeks, Kent M.
Ombudsmen Around the World: A Comparative Chart. 2d edition 163pp \$7.50

1977

- Burns, Eveline M.
Social Welfare in the 1980s and Beyond. 20pp \$4.00
- Capell, Elizabeth A.
Constitutional Officers, Agencies, Boards and Commissions in California State Government, 1849 to 1975. Research Report 77-1 61pp \$3.50
- Costonis, John J., Curtis J. Berger and Stanley Scott
Regulation v. Compensation in Land Use Control: A Recommended Accommodation, A Critique, and an Interpretation. 91pp \$3.50
- Eells, John M.
LAFCO Spheres of Influence: Effective Planning for the Urban Fringe. Working Paper 77-3 149pp \$5.00
- Lepawsky, Albert, ed.
The Prospect for Presidential-Congressional Government. 110pp \$6.00
- Nathan, Harriet and Stanley Scott, eds.
Emerging Issues in Public Policy: Research Reports and Essays 1973-1976. 164pp \$11.00
- Nölling, Wilhelm, Jean Gottmann and Oliver Franks
Three Europeans Look at America: Welfare Policy, Social Trends & Foreign Affairs. 54pp \$3.00
- Waldo, Dwight
Democracy, Bureaucracy and Hypocrisy. 23pp \$2.50
- Warren, Charles, Carey McWilliams, Stanley Mosk, and Alan Cranston
California Perspectives: Four Leaders Look at the State of the State. 54pp \$4.50

1976

- Jonsen, Albert R., and Michael J. Garland, eds.
Ethics of Newborn Intensive Care. 193pp \$4.00
- Pers, Jessica S.
Government As Parent: Administering Foster Care in California. 124pp \$5.50
- Wengert, Norman
The Political Allocation of Benefits and Burdens: Economic Externalities and Due Process in Environmental Protection. 43pp \$2.50

1975

- Lee, Eugene C. and Bruce E. Keith
1974 Supplement, California Votes, 1960-1972: A Review and Analysis of Registration and Voting. 4pp \$1.50
- Pressman, Hope Hughes
A New Resource for Welfare Reform: The Poor Themselves. 122pp \$4.50
- Scott, Stanley
Governing California's Coast. 454pp \$9.75

Monographs, research reports, bibliographies, and a full list of Institute publications are available from the Institute of Governmental Studies, 109 Moses Hall, University of California, Berkeley, California 94720. Checks should be made payable to the Regents of the University of California. Prepay all orders under \$10.00. California residents add 6% sales tax; residents of Alameda, Contra Costa and San Francisco counties add 6½% sales tax. Prices subject to change.